

PELLA COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2004

DRAFT COPY FOR REVIEW
AND DISCUSSION
PURPOSES ONLY

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PELLA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September, 2003 Election)		
Paul Van Zee	President	2004
Ivan Vos	Vice President	2005
Myron Linn	Board Member	2003
Marv Van Wyk	Board Member	2004
Joe Michels	Board Member	2005
Board of Education (After September, 2003 Election)		
Paul Van Zee	President	2004
Ivan Vos	Vice President	2005
Marv Van Wyk	Board Member	2004
Joe Michels	Board Member	2005
Myron Linn	Board Member	2006
School Officials		
Mark Wittmer	Superintendent	2004
Jon E. Miller	District Secretary/Treasurer	2004
Ron Peeler	Attorney	Indefinite



Independent Auditor's Report

To the Board of Education
Pella Community School District
Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella County Community School District, Pella, Iowa, and its aggregate discretely presented component units, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District and its aggregate discretely presented component units at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Pella Community School District adopted Governmental Accounting Standards Board Statement No. 39, Determining Whether Certain Organizations Are Component Units; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated September 23, 2004 on our consideration of Pella Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 14 and 40 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pella Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen & Associates, P.C.
Certified Public Accountants

September 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Pella Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- The enrollment count on September, 2002 showed an increase of 59.2 students. This enrollment increase generated additional funds of \$308,766, which was a 3.22% increase.
- General Fund revenues for FY 04 were \$13,782,462 compared to \$13,157,207 for FY 03. This was an increase of 4.75%. However, there was a 2.5% across-the-board state aid reduction imposed by the Governor on October 10, 2003. This was a reduction in revenues of \$192,979 to the Pella Community School District. The Governor later restored 10% of the original cut, which left the District with a net reduction of \$173,681 in anticipated revenues. If this \$173,681 had been received as planned, the District would have had a revenue increase of 6.1%.
- General Fund expenditures for FY 04 were \$13,878,413 compared to \$13,015,504 for FY 03. This was an increase of 6.6%. Included in this increase was a permanent transfer of \$75,000 to the Management Fund. Also, there was a shift of approximately \$150,000 in capital expenditure projects from the Physical Plant & Equipment Levy to the General Fund. These discretionary expenditures were part of the District's overall plan to target a financial solvency ratio of 10%. If these expenditures were removed, the overall percentage of increase would have been 4.9%.
- The District's General Fund undesignated, unreserved fund balance for FY 04 was \$1,498,171 compared to \$1,610,827 for FY 03. This is a decrease of \$112,656. This decrease is part of an overall plan to target a financial solvency ratio of 10%.
- The Financial Solvency Ratio is an accepted measure of the District's financial health and is calculated by taking the undesignated, unreserved fund balance divided by the total revenues. This ratio decreased from 12.2% in FY 03 to 10.9% in FY 04. Again, the District is making a conscious effort to target a solvency ratio of 10% and this decrease is in line with that effort.
- Interest income continues to decline due to low rates. General Fund interest income for FY 04 was \$19,655 compared to \$74,313 for FY 03 and \$102,946 for FY 02.
- The District's positive special education balance increased from \$17,021 at the end of the FY 03 to \$74,989 at the close of FY 04. Again, there were several factors contributing to this improvement, including an increase in Special Education Part B funds, an increase in weighted receipts, more tuition-in receipts, and an increase in Medicaid payments. This is an 8.1% carryover balance. The District is allowed to carryover a maximum of 10% of the additional weighted dollars.
- A three-year comparison of the District's assessed valuations, tax increment financing and total tax rates are as follows:

Year	Assessed Valuation	Tax Increment Financing	Total Tax Rate Rate
2003-04	\$ 477,138,783	\$ 60,053,193	13.31915
2002-03	470,594,593	46,139,452	13.15690
2001-02	442,301,775	31,155,430	13.66552

Our assessed valuation and tax increment financing have continued to grow while the tax rate has remained relatively stable and even gone down slightly over the three-year period.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The *governmental funds statements* explain how basic service such as regular and special education were financed in the short-term as well as what remains for future spending.
- The *proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The *fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

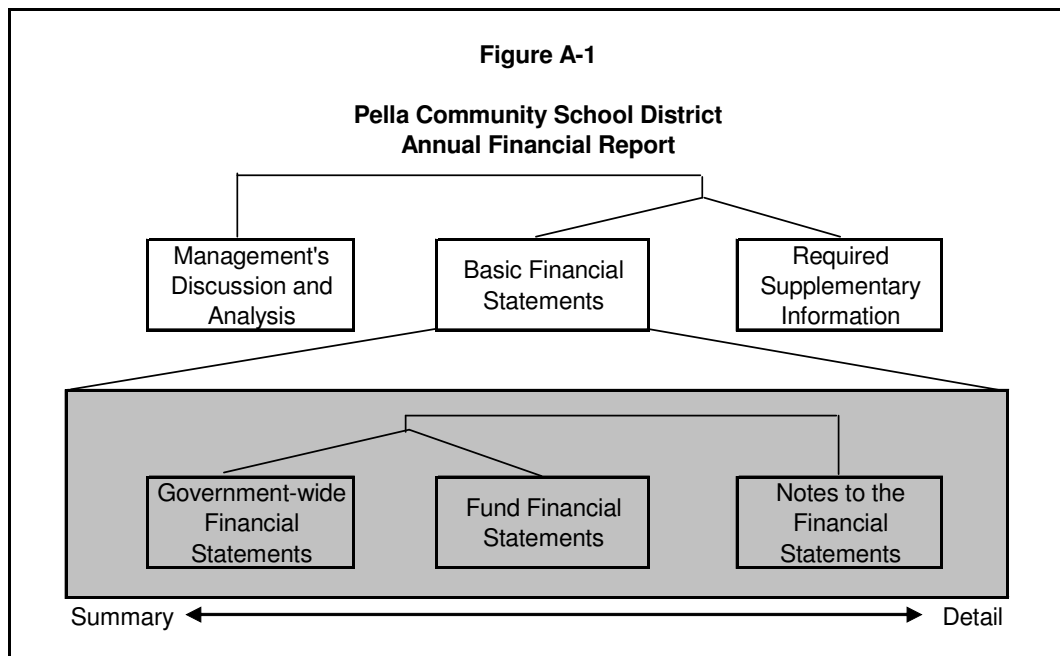


Figure A-2 below summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of managements discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-Wide Financial Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school building and other facilities.

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help it cover the cost of certain services it provides. The District's food service and child care programs would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between the two statements. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business type activities but provide more detail and additional information, such as cash flows.
- *Fiduciary funds:* The District is the trustee, or *fiduciary*, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net Assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2003.

Figure A-3 Condensed Statement of Net Assets (expressed in thousands)							
	Governmental Activities		Business type activities		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 9,858	10,017	210	164	10,068	10,181	-1.1%
Capital assets	16,328	16,232	123	151	16,451	16,383	0.4%
Total assets	26,186	26,249	333	315	26,519	26,564	-0.2%
Long-term debt obligations	6,978	7,778	-	-	6,978	7,778	-10.3%
Other liabilities	7,723	7,689	32	17	7,755	7,706	0.6%
Total liabilities	14,701	15,467	32	17	14,733	15,484	-4.9%
Net assets:							
Invested in capital assets, net of related debt	9,708	8,876	123	151	9,831	9,027	8.9%
Restricted	458	639	-	-	458	639	-28.3%
Unrestricted	1,319	1,267	178	147	1,497	1,414	5.9%
Total net assets	\$ 11,485	10,782	301	298	11,786	11,080	6.4%

The District's combined net assets increased by 6.4% from \$11,080,000 to \$11,786,000. The increase is due to a combination of a reduction in long-term debt obligations, an increase to investments in capital assets and a decrease in restricted assets.

Change in net assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4			
Changes in Net Assets			
(expressed in thousands)			
	Govern- mental Activities	Business type Activities	Total
Revenues:			
Program revenues:			
Charges for service and sales	\$ 1,075	619	1,694
Operating grants, contributions and restricted interest	1,635	222	1,857
General revenues:			
Property tax	6,920	-	6,920
Local option sales and services tax	153	-	153
Unrestricted states grants	6,563	-	6,563
Unrestricted investment earnings	24	2	26
Other	110	-	110
Total revenues	16,480	843	17,323
Program expenses:			
Governmental activities:			
Instruction	10,015	-	10,015
Support services	4,654	-	4,654
Non-instructional programs	82	840	922
Other expenses	1,025	-	1,025
Total expenses	15,776	840	16,616
Change in net assets	\$ 704	3	707

Governmental Activities

Property tax and unrestricted state grants account for 81.8% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 93% of the total expenses.

Revenues for governmental activities were \$16,480,906 and expenses were \$15,776,981, resulting in a net asset increase of \$703,925.

Figure A-5 presents to total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
Instruction	10,015	8,031
Support services	4,654	4,521
Non-instructional programs	82	82
Other expenses	1,025	433
Totals	\$ 15,776	13,067

- The cost financed by users of the District's programs was \$1,075,311.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,634,665.
- The net cost of governmental activities was financed with \$6,919,803 in property taxes, \$6,562,977 in state foundation aid, \$153,479 in local option sales and services tax and \$24,150 in interest income.

Business Type Activities

Revenues of the District's business type activities were \$843,665 and expenses were \$840,327. The District's business type activities include Kid's Club, Families First and the School Nutrition Fund. The School Nutrition Fund, however, accounts for 90% of the business type activity. Revenues of these activities were comprised of \$619,226 in charges for service, \$221,891 for federal and state reimbursements and investment income of \$2,548. The net assets increased by \$3,338.

Financial Analysis of the District's Funds

As previously noted, the Pella Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,972,784. This compares to \$2,193,880 last year, a decrease of \$221,096.

Governmental Fund Highlights

- The General Fund balance decreased from \$1,776,448 to \$1,607,597. Contributing factors to this decrease were a loss of anticipated state aid of \$173,681, a permanent transfer to the Management Fund of \$75,000 and capital project expenditures of approximately \$150,000 from the General Fund.
- The Activity Fund balance increased from \$96,698 to \$116,340.
- The Management Fund balance increased by \$28,419. This fund, however, continues to reflect a negative balance due to the obligation of our early retirement payments. What is not reflected in this balance is the corresponding annual levy that will cover the obligation. The levy is made annually by the Board of Education to cover the costs of our property/casualty insurance premiums, unemployment compensation and early retirement. While the levy cannot be presumed, and therefore not reflected in the financial statements, there is no reason to believe the Board will not levy the necessary dollars to cover this obligation on an annual basis. The Board also approved a permanent transfer of \$75,000 from the General Fund.
- The Physical Plant & Equipment Levy (PPEL) Fund balance decreased \$157,195, from \$314,229 to \$157,034. There were several major renovation and repair projects completed during the year, which accounted for this decrease.
- The Capital Projects Fund balance increased \$54,977, from \$68,694 to \$123,671. The primary source of revenue for this fund is the Mahaska County School Infrastructure Local Option Sales Tax. We also received a small amount from the Jasper County School Infrastructure Local Option Sales Tax. Marion County voters approved this tax on March 23, 2004. Collections will begin on July 1, 2004 and are estimated to bring in approximately \$760,000 annually.
- The Debt Service Fund increased \$1,912, from \$93,353 to \$95,265. Property taxes were levied to cover the principle and interest payments of our three outstanding bond issues. We also received revenues from mobile home taxes, state sources and interest income.

Proprietary Fund Highlights

The District's Proprietary Funds include the Kid's Club, Families First and the School Nutrition Fund.

- Kid's Club is an after school program operated in our Webster Elementary building. The revenues and expenditures of this program are run through the District's financial accounting records. This fund experienced a decrease of \$1,424, from \$3,836 to \$2,412.
- Families First is a community services oriented program. The revenues and expenditures of this program also run through the District's financial accounting records. This program is dependent upon contributions, grants and some user fees for its operation. The balance in this fund decreased \$223, from \$1,661 to \$1,438.
- The School Nutrition Fund balance increased \$4,985, from \$292,312 to \$297,297.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 40 and 41.

Legal Budgetary Highlights

The District's total actual receipts were \$70,484 more than the total budgeted receipts, a variance of 0.4%. State sources were \$213,854 short of the budgeted amount, reflecting primarily the 2.5% across-the-board state aid cut. It is also the District's practice to budget revenues conservatively toward the low side, without compromising the integrity of the budget itself.

Total expenditures were \$713,248 less than budgeted, a variance of 3.98%. The District's practice when budgeting expenditures is to increase the expenditures by a higher than expected percentage. This should usually result in the certified budget being higher than the actual expenditures for a given year. Somewhat opposite of the revenue side, the District budgets toward the high side of expenditures, without compromising the integrity of the budget itself.

The District's budget was amended on May 24, 2004. The functional area of total support services was increased from \$4,319,500 to \$4,700,000. This amendment was made to reflect additional capital projects that were completed during the year and equipment that was purchased.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had invested \$16,451,730, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, musical instruments, audio-visual equipment and transportation equipment. (See Figure A-6). More detailed information about capital assets is Available in Note 3 to the financial statements. Depreciation expense for the year was nearly one million dollars.

Figure A-6 Capital Assets, net of Depreciation (expressed in thousands)							
	Governmental		Business type		Total		Total
	Activities		activities				Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 191	191	-	-	191	191	0.0%
Buildings	13,333	13,408	-	-	13,333	13,408	-0.6%
Improvements other than buildings	353	157	-	-	353	157	124.8%
Furniture and equipment	2,451	2,476	123	151	2,574	2,627	-2.0%
Totals	\$ 16,328	16,232	123	151	16,451	16,383	0.4%

The original cost of the District's capital assets was \$29,294,927. Governmental funds account for \$28,579,990 with the remaining \$714,937 in the School Nutrition Fund.

Major improvements this year included roof repair at the High School, Middle School and Lincoln Elementary, flooring at the High School and Middle School, a cooling tower at the Middle School, tuck pointing at Jefferson Elementary, window replacement at the High School, resurfacing the High School track, repair to the High School parking lot and a complete renovation of the High School baseball diamond.

Long-Term Debt

At June 30, 2004, the District had \$6,977,785 in general obligation bonds and other long-term debt. This represents a decrease of approximately 10.3% from last year. (See Figure A-7). More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had total outstanding bonded indebtedness at June 30, 2004 of \$6,620,000. This represents three separate bond issues. Two of these issues will be retired in FY 09 and the third one in FY 13.

The District also had a long-term debt obligation for its early retirement plan, which was \$357,785 at June 30, 2004. Retiring employees are currently allowed to receive payments until they reach age 65. This obligation is paid from the District's Management Fund.

Figure A-7 Outstanding Long-Term Obligations (expressed in thousands)			
	June 30,		
	2004	2003	Change
Instruction	\$ 6,620	7,425	10.8%
Non-instructional programs	358	353	-1.4%
Totals	\$ 6,978	7,778	10.3%

Factors Bearing on District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Marion County voted and passed a one cent School Infrastructure Local Option Sales Tax on March 23, 2004. It is estimated that Pella will receive approximately \$760,000 annually for a ten-year period from Marion County. The District also receives approximately \$100,000 from the Mahaska County and \$4,400 from the Jasper County tax levies annually. With the successful passage of this tax, the District has sold tax revenue bonds to finance the purchase of approximately 50 acres of land. This land will be the site of any future building construction and will allow the District to maintain a central campus philosophy.
- Two study committees have made a recommendation to the Board of Education that our oldest elementary building should be replaced. These recommendations are currently being discussed by the Board and a bond issue vote is being targeted for late January or early February, 2005.
- Major improvements have been made to the District's football field, softball field, baseball field and soccer field. The Athletic Booster Club has donated funds for approximately half the costs of these projects. The remaining funds have come from the District's Physical Plant & Equipment Levy Fund.
- The District's transportation fleet is in good shape overall. Each year, either two buses or one bus and a support vehicle are purchased to keep the fleet updated. A 12-passenger, handicap accessible bus has been added to the fleet to transport special needs students. The General Fund has been the source of revenue for these purchases.
- Pella is home to the corporate headquarters of Pella Corporation and Vermeer Manufacturing. The general economy of Pella continues to be strong. Vermeer Manufacturing had recently experienced employee layoffs, but is now rehiring employees. Pella Corporation has recently announced the addition of 400-500 new jobs in the Pella area. The property tax base remains strong and housing starts have been good.
- The Pella Community School District is very unique in that it does not have a collective bargaining agreement with its teachers. There continues to be a very amicable relationship between management and labor.

Contacting the District's Financial Management

The financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon E Miller, Board Secretary / Business Manager, Pella Community School District, 210 E. University, P.O. Box 468, Pella, Iowa, 50219.

Basic Financial Statements

Pella Community School District

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business Type Activities	Total	Component Units
Assets				
Cash and cash equivalents	\$ 3,099,346	179,004	3,278,350	81,637
Receivables:				
Property tax:				
Delinquent	51,295	-	51,295	-
Succeeding year	6,432,577	-	6,432,577	-
Accounts	12,487	1,100	13,587	-
Due from other governments	152,517	-	152,517	-
Inventories	24,784	29,512	54,296	-
Prepaid expense	84,642	-	84,642	-
Capital assets, net of accumulated depreciation (note 3)	16,328,384	123,346	16,451,730	-
Total assets	26,186,032	332,962	26,518,994	81,637
Liabilities				
Accounts payable	235,791	1,773	237,564	-
Salaries and benefits payable	1,026,900	30,042	1,056,942	-
Accrued interest payable	27,539	-	27,539	-
Deferred revenue:				
Succeeding year property tax	6,432,577	-	6,432,577	-
Long-term liabilities (note 4):				
Portion due within one year:				
Bonds payable	845,000	-	845,000	-
Early retirement	189,596	-	189,596	-
Portion due after one year:				
Bonds payable	5,775,000	-	5,775,000	-
Early retirement	168,189	-	168,189	-
Total liabilities	14,700,592	31,815	14,732,407	-
Net assets				
Invested in capital assets, net of related debt	9,708,384	123,346	9,831,730	-
Restricted for:				
Physical plant and equipment levy	157,034	-	157,034	-
Other special revenue purposes	-	-	-	-
Capital projects	123,671	-	123,671	-
Debt service	67,726	-	67,726	-
Other	109,426	-	109,426	-
Unrestricted	1,319,199	177,801	1,497,000	81,637
Total net assets	\$ 11,485,440	301,147	11,786,587	81,637

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

		Program Revenues		
			Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs		Expenses		
Governmental activities:				
Instruction:				
Regular instruction	\$	6,559,352	315,517	559,184
Special instruction		2,072,152	275,107	297,381
Other instruction		1,383,767	480,545	56,224
		10,015,271	1,071,169	912,789
Support Service:				
Student services		503,829	-	-
Instructional staff services		733,901	-	-
Administration services		1,134,502	-	-
Operating and maintenance of plant services		1,569,341	4,142	-
Transportation services		712,570	-	128,995
		4,654,143	4,142	128,995
Non-instructional programs				
		82,147	-	-
Other expenditures:				
Long-term debt interest		365,773	-	-
AEA flowthrough		592,881	-	592,881
Depreciation (unallocated)*		66,766	-	-
		1,025,420	-	592,881
Total governmental activities				
		15,776,981	1,075,311	1,634,665
Business type activities:				
Non-instructional programs:				
Community daycare		36,668	35,244	-
Community services		40,457	40,234	-
Nutrition services		763,202	543,748	221,891
Total business type activities		840,327	619,226	221,891
Total primary government	\$	16,617,308	1,694,537	1,856,556
Component Units:				
Program expenses	\$	14,309	-	42,378
Management and general expenses		1,775	-	-
Fundraising expenses		44,036	-	87,838
Total component units	\$	60,120	-	130,216

Exhibit B

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business Type Activities	Total	Component Units
(5,684,651)	-	(5,684,651)	-
(1,499,664)	-	(1,499,664)	-
(846,998)	-	(846,998)	-
(8,031,313)	-	(8,031,313)	-
(503,829)	-	(503,829)	-
(733,901)	-	(733,901)	-
(1,134,502)	-	(1,134,502)	-
(1,565,199)	-	(1,565,199)	-
(583,575)	-	(583,575)	-
(4,521,006)	-	(4,521,006)	-
(82,147)	-	(82,147)	-
(365,773)	-	(365,773)	-
-	-	-	-
(66,766)	-	(66,766)	-
(432,539)	-	(432,539)	-
(13,067,005)	-	(13,067,005)	-
-	(1,424)	(1,424)	-
-	(223)	(223)	-
-	2,437	2,437	-
-	790	790	-
(13,067,005)	790	(13,066,215)	-
-	-	-	28,069
-	-	-	(1,775)
-	-	-	43,802
-	-	-	70,096

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
<i>Continued from previous pages</i>			
General Revenues:			
Totals from pages 18 and 19	\$ 16,617,308	1,694,537	1,856,556
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Gifts to Pella Community School District			
 Total general revenues			
 Change in net assets			
 Net assets beginning of year			
 Net assets end of year			

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business Type Activities	Total	Component Units
(13,067,005)	790	(13,066,215)	70,096
5,212,058	-	5,212,058	-
1,171,343	-	1,171,343	-
536,402	-	536,402	-
153,479	-	153,479	-
6,562,977	-	6,562,977	-
24,150	2,548	26,698	235
110,521	-	110,521	-
-	-	-	(34,901)
13,770,930	2,548	13,773,478	(34,666)
703,925	3,338	707,263	35,430
10,781,515	297,809	11,079,324	46,207
\$ 11,485,440	301,147	11,786,587	81,637

Exhibit C

PELLA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Assets					
Cash and pooled investments	\$ 2,541,134	86,764	112,066	359,382	3,099,346
Receivables:					
Property tax:					
Current year delinquent	35,768	8,765	-	6,762	51,295
Succeeding year	4,357,799	1,176,374	-	898,404	6,432,577
Accounts	12,487	-	-	-	12,487
Due from other governments	140,912	-	11,605	-	152,517
Inventories	24,784	-	-	-	24,784
Prepaid expenses	84,642	-	-	-	84,642
Total assets	\$ 7,197,526	1,271,903	123,671	1,264,548	9,857,648
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 208,229	264	-	27,298	235,791
Salaries and benefits payable	1,023,901	-	-	2,999	1,026,900
Deferred revenue:					
Succeeding year property tax	4,357,799	1,176,374	-	898,404	6,432,577
Early retirement payable	-	-	-	189,596	189,596
Total liabilities	5,589,929	1,176,638	-	1,118,297	7,884,864
Fund balances:					
Reserved for:					
Prepaid expense	84,642	-	-	-	84,642
Debt service	-	95,265	-	-	95,265
Inventories	24,784	-	-	-	24,784
Unreserved, undesignated	1,498,171	-	123,671	146,251	1,768,093
Total fund balances	1,607,597	95,265	123,671	146,251	1,972,784
Total liabilities and fund balances	\$ 7,197,526	1,271,903	123,671	1,264,548	9,857,648

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balances of governmental funds (pg. 22) \$ 1,972,784

***Amounts reported for governmental activities in the
statement of net assets are different because:***

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported as assets in the
governmental funds. 16,328,384

Accrued interest payable on long-term liabilities is not due and
payable in the current period and, therefore, is not reported as a
liability in the governmental funds. (27,539)

Long-term liabilities, including bonds payable and early
retirement, are not due and payable in the current period and,
therefore, are not reported as liabilities in the governmental
funds. (6,788,189)

Net assets of governmental activities (pg. 17) \$ 11,485,440

See notes to financial statements.

Exhibit E

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended June 30, 2004

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 4,867,836	1,171,343	153,479	880,624	7,073,282
Tuition	489,605	-	-	-	489,605
Other	187,887	1,000	500	483,530	672,917
Intermediate sources	15,000	-	-	-	15,000
State sources	7,775,756	3,400	-	2,468	7,781,624
Federal sources	446,378	-	-	-	446,378
Total revenues	13,782,462	1,175,743	153,979	1,366,622	16,478,806
Expenditures:					
Current:					
Instruction:					
Regular instruction	5,909,888	-	-	411,830	6,321,718
Special instruction	2,062,595	-	-	-	2,062,595
Other instruction	822,833	-	-	462,888	1,285,721
	8,795,316	-	-	874,718	9,670,034
Support services:					
Student services	496,704	-	-	2,500	499,204
Instructional staff services	676,384	-	-	1,300	677,684
Administration services	1,127,613	-	-	9,151	1,136,764
Operation and maintenance of plant services	1,538,390	-	-	100,693	1,639,083
Transportation services	651,125	-	-	48,191	699,316
	4,490,216	-	-	161,835	4,652,051
Non-instructional programs	-	-	-	16,086	16,086
Other expenditures:					
Facilities acquisition	-	-	99,002	498,117	597,119
Long-term debt:					
Principal	-	805,000	-	-	805,000
Interest and fiscal charges	-	368,831	-	-	368,831
AEA flowthrough	592,881	-	-	-	592,881
	592,881	1,173,831	99,002	498,117	2,363,831
Total expenditures	13,878,413	1,173,831	99,002	1,550,756	16,702,002
Excess (deficiency) of revenues over (under) expenditures	(95,951)	1,912	54,977	(184,134)	(223,196)
Other financing sources (uses):					
Transfers in	-	-	-	75,000	75,000
Transfers out	(75,000)	-	-	-	(75,000)
Sale of equipment	2,100	-	-	-	2,100
Total other financing sources (uses)	(72,900)	-	-	75,000	2,100
Net change in fund balances	(168,851)	1,912	54,977	(109,134)	(221,096)
Fund balances beginning of year	1,776,448	93,353	68,694	255,385	2,193,880
Fund balances end of year	\$ 1,607,597	95,265	123,671	146,251	1,972,784

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2004

Net change in fund balances - total governmental funds (pg. 24) \$ (221,096)

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 1,013,804	
Depreciation expense	<u>(917,562)</u>	96,242

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

805,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

3,058

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		20,721
------------------	--	--------

Change in net assets of governmental activities (pg. 21) \$ 703,925

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	<u>Enterprise Funds</u>
Assets	
Cash and investments	\$ 179,004
Receivables:	
Accounts	1,100
Inventories	29,512
Property and equipment:	
Machinery and equipment	714,937
Accumulated depreciation	<u>(591,591)</u>
Total assets	<u>332,962</u>
Liabilities	
Accounts payable	1,773
Salaries and benefits payable	<u>30,042</u>
Total liabilities	<u>31,815</u>
Net assets	
Invested in capital assets, net of related debt	123,346
Unrestricted	<u>177,801</u>
Total net assets	<u><u>\$ 301,147</u></u>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2004

	<u>Enterprise Funds</u>
Operating revenue:	
Local sources:	
Charges for services	<u>\$ 619,226</u>
Operating expenses:	
Non-instructional programs:	
Community service operations:	
Other	77,125
Food service operations:	
Depreciation	39,614
Other	723,588
Total operating expenses	<u>840,327</u>
Operating loss	<u>(221,101)</u>
Non-operating revenue:	
Local sources	2,548
State sources	10,132
Federal sources	211,759
Total non-operating revenue	<u>224,439</u>
Change in net assets	3,338
Net assets beginning of year	<u>297,809</u>
Net assets end of year	<u><u>\$ 301,147</u></u>

See notes to financial statements.

Exhibit I

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
Year Ended June 30, 2004

	Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 545,001
Cash received from daycare service tuition and fees	74,378
Cash payments to employees for services	(418,826)
Cash payments to suppliers for goods or services	(316,062)
Net cash used by operating activities	(115,509)
Cash flows from non-capital financing activities:	
State grants received	10,132
Federal grants received	162,765
Net cash provided by non-capital financing activities	172,897
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(11,698)
Cash flows from investing activities:	
Purchase of investments	(60,000)
Interest on investments	2,548
Net cash used by investing activities	(57,452)
Net decrease in cash and cash equivalents	(11,762)
Cash and cash equivalents at beginning of year	90,766
Cash and cash equivalents at end of year	\$ 79,004
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (221,101)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Commodities	48,994
Depreciation	39,614
Decrease in inventories	1,744
Decrease in other assets	153
Increase in accounts payable	1,526
Increase in salaries and benefits payable	13,561
Net cash used by operating activities	\$ (115,509)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash and investments	\$ 179,004
Less items not meeting definition of cash equivalents:	
Certificates of deposit	(100,000)
Cash and cash equivalents at year end	\$ 79,004

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$48,994.

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

	Private Purpose Trust
	Scholarship
Assets	
Cash and investments	\$ 87,142
Receivables:	
Accounts	<u>3,086</u>
Total assets	<u>90,228</u>
Liabilities	
Accounts payable	<u>170</u>
Total liabilities	<u>170</u>
Net assets	
Reserved for scholarships	<u><u>\$ 90,058</u></u>

See notes to financial statements.

Exhibit K

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
Year Ended June 30, 2004

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Gifts and donations	\$ 46,466
Interest	872
Total additions	<u>47,338</u>
Deductions:	
Instruction:	
Purchased services	1,254
Supplies	39,702
Property	3,770
Other	1,200
Total deductions	<u>45,926</u>
Change in net assets	1,412
Net assets beginning of year	<u>88,646</u>
Net assets end of year	<u><u>\$ 90,058</u></u>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - COMPONENT UNITS
June 30, 2004

	Parent Teacher Organization	Pella Elementary Parents Group	Pella Community School Athletic Booster Club	Total
Assets				
Cash and pooled investments	\$ 1,612	23,360	56,665	81,637
Total assets	1,612	23,360	56,665	81,637
Net Assets				
Unrestricted	\$ 1,612	23,360	56,665	81,637

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - COMPONENT UNITS
June 30, 2004

	Parent Teacher Organization	Pella Elementary Parents Group	Pella Community School Athletic Booster Club	Total
Operating revenues:				
Contributions	\$ 6,550	-	24,893	31,443
Membership dues	-	-	10,935	10,935
Fundraising	-	65,695	22,143	87,838
Total operating revenues	6,550	65,695	57,971	130,216
Operating expenses:				
Program expenses	668	3,671	9,970	14,309
Management and general expenses	-	408	1,367	1,775
Fundraising expenses	-	35,771	8,265	44,036
Total operating expenses	668	39,850	19,602	60,120
Operating income	5,882	25,845	38,369	70,096
Non-operating revenues (expenses):				
Interest income	18	-	217	235
Gifts to Pella Community School District	(16,666)	(18,235)	-	(34,901)
Net non-operating revenues (expenses)	(16,648)	(18,235)	217	(34,666)
Changes in net assets	(10,766)	7,610	38,586	35,430
Net assets beginning of year	12,378	15,750	18,079	46,207
Net assets end of year	\$ 1,612	23,360	56,665	81,637

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(1) Summary of Significant Accounting Policies

Pella Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Pella, Iowa. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pella Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

These financial statements present Pella Community School District (the primary government) and its component units. The components units discussed below are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

Discrete Component Units

Parent Teacher Organization is a legally separate not-for-profit entity. Parent Teacher Organization was established for the purpose of providing additional educational and recreational services for the benefit of Pella Community School District. Although the District does not control the timing or amount of receipts from Parent Teacher Organization, the majority of the resources that are held are used for the benefit of Pella Community School District.

Pella Elementary Parents Group is a legally separate not-for-profit entity. Pella Elementary Parents Group was established for the purpose of providing additional educational and recreational services for the benefit of Pella Community School District. Although the District does not control the timing or amount of receipts from the Pella Elementary Parents Group, the majority of the resources that are held are used for the benefit of Pella Community School District.

Pella Community School Athletic Booster Club is a legally separate not-for-profit entity. Pella Community School Athletic Booster Club was established for the purpose of maintaining and developing the athletic facilities and departments of Pella Community School District. Although the District does not control the timing or amount of receipts from the Pella Community School Athletic Booster Club, the majority of the resources that are held are used for the benefit of Pella Community School District.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds consist of three Enterprise funds: School Nutrition, Kids Club, and Families First. These funds are used to account for the food service operations, child after-school operations and community-family service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Expendable Trust Fund is used to account for assets held by the District in a trustee capacity and is accounted for in essentially the same manner as Governmental Funds.

C. Measurement Focus and Basis of Accounting

The Government-wide proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2004

(3) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 191,000	-	-	191,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	191,000	-	-	191,000
Capital assets being depreciated:				
Buildings	18,714,576	341,859		19,056,435
Improvements other than buildings	493,988	214,773		708,761
Furniture and equipment	8,166,622	457,172		8,623,794
Total capital assets being depreciated	27,375,186	1,013,804	-	28,388,990
Less accumulated depreciation for:				
Buildings	5,306,950	416,084		5,723,034
Improvements other than buildings	337,007	19,004		356,011
Furniture and equipment	5,690,087	482,474		6,172,561
Total accumulated depreciation	11,334,044	917,562	-	12,251,606
Total capital assets being depreciated, net	16,041,142	96,242	-	16,137,384
Governmental activities capital assets, net	\$ 16,232,142	96,242	-	16,328,384
Business type activities:				
Furniture and equipment	\$ 703,239	11,698		714,937
Less accumulated depreciation	551,977	39,614		591,591
Business type activities capital assets, net	\$ 151,262	(27,916)	-	123,346
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular				\$ 435,850
Special				33,082
Other				65,769
Support services:				
Student services				4,625
Instructional staff				56,217
Administration				5,116
Operation and maintenance of plant				38,648
Transportation				145,428
Non-instructional programs				66,061
				850,796
Unallocated depreciation				66,766
Total governmental activities depreciation expense				\$ 917,562
Business type activities:				
Food services				\$ 39,614

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

(4) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 7,425,000	-	805,000	6,620,000	845,000
Early retirement	352,662	164,875	159,752	357,785	189,596
	<u>\$ 7,777,662</u>	<u>164,875</u>	<u>964,752</u>	<u>6,977,785</u>	<u>1,034,596</u>

Early Retirement

The District offers a voluntary early retirement plan to all school employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is based on a percentage of the employee's final year's salary. The percentage used for calculation is based on years of service to the District. The percentage varies from 38% for 10 years of service to 57% for 15 or more years of experience. Early retirement benefits paid during the year ended June 30, 2004 totaled \$195,517.

Bonded Debt

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Rates	Principal	Interest	Total
2005	4.95%	\$ 365,000	212,415	577,415
2006	5.05%	380,000	194,348	574,348
2007	5.20%	400,000	175,157	575,157
2008	5.25%	420,000	154,358	574,358
2009	5.30%	440,000	132,307	572,307
2010	5.38%	465,000	108,988	573,988
2011	5.38%	490,000	83,994	573,994
2012	5.38%	515,000	57,656	572,656
2013	5.50%	545,000	29,975	574,975
Subtotal		<u>4,020,000</u>	<u>1,149,198</u>	<u>5,169,198</u>

As of June 30, 2004, details of the District's November 1, 1997 refunding bonds are as follows:

Year Ending June 30,	Rates	Principal	Interest	Total
2005	4.55%	210,000	53,060	263,060
2006	4.60%	215,000	43,505	258,505
2007	4.70%	225,000	33,615	258,615
2008	4.80%	235,000	23,040	258,040
2009	4.90%	240,000	11,760	251,760
Subtotal		<u>1,125,000</u>	<u>164,980</u>	<u>1,289,980</u>

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2004

As of June 30, 2004, details of the District's March 1, 1998 refunding bonds are as follows:

Year Ending June 30,	Rates	Interest Principal	Interest	Total
2005	4.25%	270,000	64,998	334,998
2006	4.35%	280,000	53,523	333,523
2007	4.40%	290,000	41,343	331,343
2008	4.45%	310,000	28,583	338,583
2009	4.55%	325,000	14,787	339,787
Subtotal		1,475,000	203,234	1,678,234
Total		\$ 6,620,000	1,517,412	8,137,412

The total amount of interest costs incurred and charged to expense for the fiscal year ended June 30, 2004 was \$367,168.

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$524,044, \$503,123, and \$497,775, respectively, equal to the required contributions for each year.

(6) Risk Management

Pella Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Pella Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision, prescription drugs, life and long-term disability.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the fiscal year ended June 30, 2004 were \$887,214.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$592,881 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Deficit Fund Balance

The Management Fund had a deficit balance of \$127,123 as of June 30, 2004.

(9) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 39, Determining Whether Certain Organizations Are Component Units was implemented for the year ended June 30, 2004. The statement gives guidelines to the inclusion of component units on the financial statements. The District has presented the following entities as discretely presented component units: Parent Teacher Organization, Pella Elementary Parents Group, and Pella Community School Athletic Booster Club. Since the component units are discretely presented, there is no change in the District's previously reported net assets.

Required Supplementary Information

PELLA COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES
 IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
 FUNDS AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 Year Ended June 30, 2004

	Governmental Funds- Actual	Proprietary Fund- Actual
Receipts:		
Local sources	\$ 8,271,919	621,927
Intermediate sources	15,000	-
State sources	7,778,712	10,132
Federal sources	445,683	162,765
Total receipts	<u>16,511,314</u>	<u>794,824</u>
Disbursements:		
Instruction	9,446,558	-
Support services	4,652,051	-
Noninstructional programs	16,086	746,586
Other disbursements	2,363,831	-
Total disbursements	<u>16,478,526</u>	<u>746,586</u>
Excess (deficiency) of receipts over (under) disbursements	32,788	48,238
Other financing sources, net	<u>2,100</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	34,888	48,238
Balances beginning of year	<u>3,064,458</u>	<u>130,766</u>
Balances end of year	<u><u>\$ 3,099,346</u></u>	<u><u>179,004</u></u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
	Original	Final	
8,893,846	8,774,656	8,774,656	119,190
15,000	15,000	15,000	-
7,788,844	8,002,698	8,002,698	(213,854)
608,448	443,300	443,300	165,148
17,306,138	17,235,654	17,235,654	70,484
9,446,558	9,982,813	9,982,813	536,255
4,652,051	4,319,500	4,700,000	47,949
762,672	822,000	822,000	59,328
2,363,831	2,433,547	2,433,547	69,716
17,225,112	17,557,860	17,938,360	713,248
81,026	(322,206)	(702,706)	783,732
2,100	-	-	2,100
83,126	(322,206)	(702,706)	785,832
3,195,224	2,802,844	2,802,844	392,380
3,278,350	2,480,638	2,100,138	1,178,212

PELLA COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2004

Governmental Funds			
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 16,511,314	(32,508)	16,478,806
Expenditures	16,478,526	223,476	16,702,002
Net	32,788	(255,984)	(223,196)
Other financing sources	2,100	-	2,100
Beginning fund balances	3,064,458	(870,578)	2,193,880
Ending fund balances	\$ 3,099,346	(1,126,562)	1,972,784

Proprietary Funds			
Enterprise			
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 794,824	48,841	843,665
Expenses	746,586	93,741	840,327
Net	48,238	(44,900)	3,338
Beginning net assets	130,766	156,987	297,809
Ending net assets	\$ 179,004	112,087	301,147

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

PELLA COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 66,445	120,243	172,694	359,382
Receivables:				
Property tax:				
Current year delinquent	2,748	-	4,014	6,762
Succeeding year	374,999	-	523,405	898,404
Total assets	\$ 444,192	120,243	700,113	1,264,548
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 3,721	3,903	19,674	27,298
Salaries and benefits payable	2,999	-		2,999
Early retirement	189,596	-	-	189,596
Deferred revenue:				
Succeeding year property tax	374,999	-	523,405	898,404
Total liabilities	571,315	3,903	543,079	1,118,297
Fund equity:				
Unreserved, undesignated	(127,123)	116,340	157,034	146,251
Total liabilities and fund equity	\$ 444,192	120,243	700,113	1,264,548

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax:				
Property tax	\$ 338,320	-	528,238	866,558
Utility tax replacement excise tax	5,519	-	7,632	13,151
Mobile home tax	383	-	532	915
	344,222	-	536,402	880,624
Other local sources:				
Interest on investments	-	1,985	1,000	2,985
Student activities	-	433,190	-	433,190
Other	-	47,355	-	47,355
	-	482,530	1,000	483,530
	344,222	482,530	537,402	1,364,154
State sources:				
Revenue in lieu of taxes - military credit	911	-	1,557	2,468
Total revenues	345,133	482,530	538,959	1,366,622
Expenditures:				
Instruction:				
Regular instruction:				
Salaries	148,258	-	-	148,258
Benefits	64,966	-	-	64,966
Services	23,109	-	-	23,109
Property	-	-	175,497	175,497
	236,333	-	175,497	411,830
Co-curricular instruction:				
Salaries	-	7,953	-	7,953
Benefits	-	696	-	696
Services	-	254,867	-	254,867
Supplies	-	183,460	-	183,460
Property	-	11,584	-	11,584
Other	-	4,328	-	4,328
	-	462,888	-	462,888
Total instruction	236,333	462,888	175,497	874,718
Support Services:				
Student support services:				
Benefits	500	-	-	500
Services	2,000	-	-	2,000
	2,500	-	-	2,500
Instructional staff support services:				
Benefits	500	-	-	500
Services	800	-	-	800
	1,300	-	-	1,300

PELLA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2004

Continued from previous page

Expenditures:

Support Services:

General administration:

Benefits	500	-	-	500
Services	2,000	-	-	2,000
	2,500	-	-	2,500

Building administration:

Benefits	500	-	-	500
Services	2,825	-	-	2,825
	3,325	-	-	3,325

Business administration:

Benefits	500	-	-	500
Services	2,826	-	-	2,826
	3,326	-	-	3,326

Plant operation and maintenance:

Benefits	34,491	-	-	34,491
Services	43,662	-	-	43,662
Property	-	-	22,540	22,540
	78,153	-	22,540	100,693

Student transportation:

Benefits	12,795	-	-	12,795
Services	35,396	-	-	35,396
	48,191	-	-	48,191

Total support services	139,295	-	22,540	161,835
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Non-instructional:

Food service operations:

Benefits	13,086	-	-	13,086
Services	3,000	-	-	3,000
Total non-instructional	16,086	-	-	16,086

Other expenditures:

Facilities acquisition and construction:

Services	-	-	498,117	498,117
Total other expenditures	-	-	498,117	498,117
Total expenditures	391,714	462,888	696,154	1,550,756

Schedule 2

PELLA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
<i>Continued from previous page</i>				
Excess (deficiency) of revenues over (under) expenditures	(46,581)	19,642	(157,195)	(184,134)
Other financing sources:				
Operating transfers in	75,000	-	-	75,000
Total other financing sources	75,000	-	-	75,000
Net change in fund balances	28,419	19,642	(157,195)	(109,134)
Fund balances beginning of year	(155,542)	96,698	314,229	255,385
Fund balances end of year	<u>\$ (127,123)</u>	<u>116,340</u>	<u>157,034</u>	<u>146,251</u>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
Assets				
Cash and investments	\$ 9,313	4,414	165,277	179,004
Receivables:				
Accounts	-	1,100	-	1,100
Inventories	-	-	29,512	29,512
Property and equipment:				
Machinery and equipment	-	-	714,937	714,937
Accumulated depreciation	-	-	(591,591)	(591,591)
				-
Total assets	9,313	5,514	318,135	332,962
Liabilities				
Accounts payable	823	701	249	1,773
Salaries and benefits payable	6,078	3,375	20,589	30,042
Total liabilities	6,901	4,076	20,838	31,815
Net assets				
Invested in capital assets, net of related debt	-	-	123,346	123,346
Unrestricted	2,412	1,438	173,951	177,801
Total net assets	\$ 2,412	1,438	297,297	301,147

See accompanying independent auditor's report.

Schedule 4

PELLA COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
 FUND NET ASSETS - PROPRIETARY FUNDS
 Year Ended June 30, 2004

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
Operating revenues:				
Local sources:				
Other local sources:				
Community service tuition and fees	\$ 35,244	40,234	-	75,478
Sale of lunches and breakfasts	-	-	543,748	
Total operating revenues	35,244	40,234	543,748	619,226
Operating expenses:				
Non-instructional programs:				
Community service operations:				
Salaries	27,099	21,080	-	48,179
Benefits	3,323	2,825	-	6,148
Services	-	11,881	-	11,881
Supplies	6,246	4,671	-	10,917
	36,668	40,457	-	77,125
Food services operations:				
Salaries	-	-	291,521	291,521
Benefits	-	-	86,539	86,539
Services	-	-	12,252	12,252
Supplies	-	-	333,219	333,219
Other	-	-	57	57
Depreciation	-	-	39,614	39,614
	-	-	763,202	763,202
Total operating expenses	36,668	40,457	763,202	840,327
Operating loss	(1,424)	(223)	(219,454)	(221,101)
Non-operating revenues:				
Interest income	-	-	2,548	2,548
State lunch and breakfast program claims	-	-	10,132	10,132
National School Lunch Program	-	-	149,056	149,056
School Breakfast Program	-	-	13,709	13,709
Food distribution	-	-	48,994	48,994
Total non-operating revenues	-	-	224,439	224,439
Change in net assets	(1,424)	(223)	4,985	3,338
Net assets beginning of year	3,836	1,661	292,312	297,809
Net assets end of year	\$ 2,412	1,438	297,297	301,147

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ -	-	545,001	545,001
Cash received from daycare service tuition and fees	35,244	39,134	-	74,378
Cash payments to employees for services	(27,973)	(20,530)	(370,323)	(418,826)
Cash payments to suppliers for goods or services	(5,537)	(15,851)	(294,674)	(316,062)
Net cash provided (used) by operating activities	1,734	2,753	(119,996)	(115,509)
Cash flows from non-capital financing activities:				
State grants received	-	-	10,132	10,132
Federal grants received	-	-	162,765	162,765
Net cash provided by non-capital financing activities	-	-	172,897	172,897
Cash flows from capital and related financing activities:				
Acquisition of capital assets	-	-	(11,698)	(11,698)
Cash flows from investing activities:				
Purchase of investments	-	-	(60,000)	(60,000)
Interest on investments	-	-	2,548	2,548
	-	-	(57,452)	(57,452)
Net increase (decrease) in cash and cash equivalents	1,734	2,753	(16,249)	(11,762)
Cash and cash equivalents at beginning of year	7,579	1,661	81,526	90,766
Cash and cash equivalents at end of year	\$ 9,313	4,414	65,277	79,004
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating loss	\$ (1,424)	(223)	(219,454)	(221,101)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Commodities	-	-	48,994	48,994
Depreciation	-	-	39,614	39,614
Decrease in inventories	-	-	1,744	1,744
Decrease (increase) in accounts receivable	-	(1,100)	1,253	153
Increase in accounts payable	709	701	116	1,526
Increase in salaries and benefits payable	2,449	3,375	7,737	13,561
Net cash provided (used) by operating activities	\$ 1,734	2,753	(119,996)	(115,509)

PELLA COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
<i>Continued from previous page</i>				
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:				
Current assets:				
Cash and investments	\$ 9,313	4,414	165,277	179,004
Less items not meeting definition of cash equivalents:				
Certificates of deposit	-	-	(100,000)	(100,000)
Cash and cash equivalents at year end	<u>\$ 9,313</u>	<u>4,414</u>	<u>65,277</u>	<u>79,004</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$48,994.

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Orchestra	\$ 2,104	338	497	1,946
Music/Orchestra Fundraiser	-	69,341	67,588	1,753
Booster/PTO Concessions	(1,166)	52,533	50,061	1,306
HS Drama	(1,566)	1,987	1,398	(977)
Debate	141	-	-	141
HS Speech	1,336	800	588	1,548
HS Testing	814	4,949	4,586	1,178
HS Vocal	881	8,798	6,417	3,262
HS Instr. Music	6,037	5,501	5,208	6,330
HS Instr. Music Fundraiser	14,909	200	-	15,109
Band Boosters	(3,463)	4,960	2,269	(772)
Cross Country	-	303	303	-
Girls Cross Country	-	698	698	-
Athletics	17,844	18,102	17,667	18,279
HS Boys Bask.	126	10,783	10,783	126
HS Football	(3,861)	48,051	48,051	(3,861)
HS Football Jerseys	882	570	90	1,362
HS Baseball	111	6,846	6,416	541
HS Track	-	2,426	2,426	-
HS Boys Golf	(993)	2,176	1,158	26
HS Girls Golf	(175)	2,372	2,197	-
HS Boys Tennis	-	943	943	-
HS Girls Tennis	-	705	705	-
Tennis Club	-	270	269	1
HS Wrestling	(5)	3,734	3,699	30
Wrestling Club	881	2,886	3,042	725
HS Girls Bask.	115	16,520	16,520	115
HS Volleyball	-	10,201	10,201	-
Volleyball Club	-	486	277	209
HS Soccer	154	6,824	6,824	154
HS Girls Soccer	126	4,757	4,757	126
HS Softball	56	5,275	4,783	549
HS Girls Track	-	5,256	5,256	-
HS Miscellaneous Activity	-	7,526	7,448	78
Art Club	-	28	-	28
Pella Connection Club	1,237	809	378	1,668
HS Cheer	(1,017)	4,721	4,988	(1,284)
Class Of 2003	(656)	656	-	0
Class Of 2004	278	38	614	(298)
Class Of 2005	1,958	2,252	3,884	326
Class of 2006	1,720	1,021	-	2,741
Class of 2007	-	1,651	80	1,571
Concessions	706	-	-	706
SB	2,233	4,135	3,959	2,409
BB	206	50	104	152
Boys Basketball Concessions	4,602	6,378	8,595	2,384
Dinners Served	332	-	-	332
Dafy Club	281	-	-	281
Drill Team	2,825	21,073	16,964	6,934
Drill Team Trip	34	(34)	-	0

PELLA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<i>Continued from previous page</i>				
FFA	1,627	24,235	22,726	3,136
FHA	2,413	3,204	3,264	2,352
Humanities	1,036	872	912	997
Interest	1,918	(915)	152	851
Ind Arts Club	2,678	6,130	5,496	3,312
Student Environ. Action	7	-	-	7
NHS	(75)	100	214	(189)
Pep Club	594	-	375	219
HS PE Heart Club	185	1,748	1,868	65
French Club	6,571	(5,000)	-	1,571
HS Student Council	4,341	9,418	10,549	3,210
Yearbook	11,375	37,041	30,925	17,491
Craft Show-Yearbook	4,959	5,763	3,810	6,911
HS Weight Club	381	100	156	325
MS Vocal Music	528	50	-	578
MS Instr. Music	1,728	50	150	1,628
MS Athletics	(162)	3,141	2,980	(1)
MS Boys Bask	-	1,561	1,561	0
MS Football	-	3,125	3,125	-
MS Boys Track	-	804	804	-
MS Wrestling	-	250	250	-
MS Girls Bask	-	1,210	1,210	-
MS Volleyball	11	1,036	1,036	11
MS Softball	(65)	2,131	2,181	(115)
MS Girls Track	-	551	551	-
MS Cheerleaders	-	148	-	148
MS Library/Book Fair	365	-	-	365
MS History Day Club	21	-	-	21
MS Gifted and Talented	3,905	3,235	7,539	(399)
MS Activity	455	12,447	8,926	3,975
MS Home Ec Resale	192	3,878	3,919	151
MS Language Arts Resale	-	326	290	36
MS Social Studies Resale	-	680	591	88
MS AR Store	-	696	627	69
MS Student Council	515	1,496	410	1,601
Elem. Activity	60	-	-	60
Elem. PTO	168	-	-	168
E.L.M.A.	648	-	580	68
Lincoln Elementary	-	3,665	3,805	(141)
Webster Elementary	-	2,577	2,568	9
Jefferson Elementary	-	6,884	6,651	233
Jefferson Recycling	292	-	-	292
Totals	\$ 96,698	482,530	462,888	116,340

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 7,073,282	6,725,009	6,600,191	6,375,831
Tuition	489,605	201,329	216,030	295,706
Other	672,917	1,207,656	996,648	629,730
Intermediate sources	15,000	18,428	15,309	-
State sources	7,781,624	7,426,618	7,481,658	7,430,067
Federal sources	446,378	344,089	263,894	260,003
Total	<u>\$ 16,478,806</u>	<u>\$ 15,923,129</u>	<u>15,573,730</u>	<u>14,991,337</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 6,321,718	\$ 6,025,245	6,176,546	5,646,973
Special instruction	2,062,595	1,859,024	1,706,911	1,572,752
Other instruction	1,285,721	1,483,823	1,279,078	1,076,313
Support services:				
Student services	499,204	484,767	444,537	500,781
Instructional staff services	677,684	628,426	624,769	577,648
Administration services	1,136,764	1,103,990	1,041,328	1,006,554
Operation and maintenance of plant services	1,639,083	1,383,316	1,284,975	1,300,181
Transportation services	699,316	553,744	603,798	640,964
Non-instructional programs	16,086	11,350	7,467	9,900
Other expenditures:				
Facilities acquisition	597,119	361,383	354,533	269,932
Long-term debt:				
Principal	805,000	770,000	935,000	890,000
Interest and other charges	368,831	403,278	450,694	500,436
AEA flowthrough	592,881	604,874	608,706	600,906
Total	<u>\$ 16,702,002</u>	<u>15,673,220</u>	<u>15,518,342</u>	<u>14,593,340</u>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2004

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 04	<u>\$ 48,994</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 04	13,709
National School Lunch Program	10.555	FY 04	149,056
			<u>162,765</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY 04	<u>108,627</u>
Vocational Education - Basic Grants to States	84.048	FY 04	<u>40,848</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 04	<u>8,286</u>
State Grants for Innovative Programs	84.298	FY 04	<u>13,774</u>
Improving Teacher Quality State Grants	84.367	FY 04	<u>72,310</u>
Grants for State Assessments and Related Activities	84.369	FY 04	<u>12,762</u>
Iowa Public Television:			
Star Schools	84.203	FY 04	<u>50,000</u>
Area Education Agency (AEA 11):			
Special Education - Grants to States	84.027	FY 04	<u>87,276</u>
Total			<u>\$ 605,642</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Pella Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general- purpose financial statements.

See accompanying independent auditor's report.



Independent Auditor's Combined Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education
Pella Community School District
Pella, Iowa

We have audited the financial statements of the Pella Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 23, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pella Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comment IV-B-03 was resolved while IV-E-04 and IV-L-04 have not been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pella Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Pella Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable condition II-A-04 has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pella Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.
Certified Public Accountants

September 23, 2004



Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education
Pella Community School District
Pella, Iowa

Compliance

We have audited the compliance of Pella Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Pella Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Pella Community School District's officials. Our responsibility is to express an opinion of Pella Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pella Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pella Community School District's compliance with those requirements.

In our opinion, Pella Community School District complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Pella Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pella Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted no matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect Pella Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe Item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Van Maanen & Associates, P.C.
Certified Public Accountants

September 18, 2003

PELLA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED June 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.027 - Special Education Grants to States
 - Clustered programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (I) Pella Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

PELLA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED June 30, 2004

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

All programs displayed on the Schedule of Expenditures of Federal Awards

III-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-04 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget - Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.

IV-C-04 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

PELLA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED June 30, 2004

IV-E-04 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ivan Vos, Vice Pres. of Board Shareholder, Leighton Lumber, Inc.	Lumber	\$2,133

None of the transactions appear to be a conflict of interest and they appear to be in accordance with board policies.

Recommendation - The District may want to consult legal counsel to determine disposition of this matter.

Response - We will consider the need to consult with legal counsel.

Conclusion - Response accepted.

IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-G-04 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

IV-H-04 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-I-04 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-04 Sale of Property - During the year ended June 30, 2004, the District made no sales of property.

IV-L-04 Financial Condition - The Special Revenue Fund, Management Account had a deficit balance at June 30, 2004 of \$127,123.

Recommendation - The District should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response - The deficit balance is being looked into and the District hopes to have this deficit balance resolved in the upcoming year.

Conclusion - Response accepted.